HJR 6: Oregon Opportunity Initiative Referral

Testimony for the House Higher Ed committee

Jody Wiser, January 8, 2013

This legislation is directed to meet future unmet needs of our college students. But, as designed, it could reduce the General Fund budget and thus the funds that might be available for our current college students until about year twelve. We believe that would be a bad choice.

We should not reduce the General Funds available now; we have too many unmet needs. For example, the Oregon Opportunity Grant program currently gives maximum grants of $1950 for an academic year. For the next academic year, maximum grants will increase $50, to $2000 a year. Undoubtedly tuition alone will increase more than that, since it's been going up at about $150 a year at most of our schools.

Tuition and fees for full-time, Oregon students vary from school to school, but generally range from $4000 at our community colleges to $9000 or $10,000 at our four-year public institutions.

The $50 million or so a year we provide for these grants is enough for only 20% of eligible students. Money for the next academic year is already fully committed.

There is a solution: if you proceed with the Opportunity Initiative, you should amend the Resolution so that payments on bond principal and interest come from the corpus of the fund itself, rather than from General Fund/Lottery dollars. This way you are not making decisions now for the next 15 biennia's General Fund resources.

To the idea itself: at least now, with bond rates rather low for 30-year notes, this looks attractive.

The assumption before you is for bonds at 5.5% and an investment return of 7%. Seven percent is roughly what the last two years of the market have returned. If one looks at 25-year historic returns for the S&P 500, going back to 1951, the lowest and highest 25-year returns were 5.9% and 17.25. But each of those is a real outlier. Most historic 25-year returns are in the 9 -12% range. (I'm sorry, we could not find 30-year historic returns to match the Opportunity Initiative assumption of 30-year bonds.)

Obviously looking back, a plan built on a 7% return is conservative. However, I'll remind you that 30 years is a long time. Thirty years ago:

HIV and AIDS just emerged

- Sony introduced our first music CD's
- IBM introduced the PC, priced at about $3600 in today's dollars ($1500 then)
- The internet – as we know it – was born, and
- In Oregon and in virtually every other state, Corporations still paid taxes based one-third each on in-state payroll, property and sale.

When we look forward we know we will be expected to share -- in new ways -- the world's diminishing natural resources with millions of other world citizens and that global climate change will bring changes we can't fully anticipate. We may not get the same kinds of market returns in the future.

I'm not planning to get a mortgage on my home so that I can invest more in the market. I'm not sure this is a prudent idea for the state.

Surely, we shouldn't potentially reduce funding for current students who face debt -- without the certainty of jobs with which to repay them - only 25% of whom we even offer our rather paltry $2000 a year, while we create a trust fund for future students.

If you move forward with this proposal and refer it to the public, Tax Fairness Oregon advises that you amend HJR 6 to require that the repayment of bond principal and interest come out of the Opportunity Fund itself.